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## Argentina

### Dairy and Products

### Annual

### 2008

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**Report Highlights:**

Argentine dairy exports in 2009 are forecast to increase, as expected larger milk production, stable domestic consumption and high stocks, will force the industry to ship larger volumes of dry whole milk and cheese.

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Includes PSD Changes: Yes  
Includes Trade Matrix: No  
Annual Report  
Buenos Aires [AR1]  
[AR]

## SECTION I. SITUATION AND OUTLOOK

Argentine exports of dairy products for 2009 are projected to increase significantly. In response to an expected increase in milk production and relatively flat domestic consumption, companies will try to reduce their very large stocks built during the last semester of 2008. Most contacts expect that the current world financial crisis will put a halt in 2009 to the rapid expansion of the domestic consumption, forcing surplus milk to be exported in order to keep a balanced local market.

**EXPORTS:** Exports in 2009 are forecast to account for approximately 20-22 percent of the total milk output. This share is significantly higher than the past two years. The main dairy product exported by Argentina will continue to be dry whole milk powder. The markets are expected to be Venezuela, which also buys large volumes of modified milk for the retail market, Brazil, and several countries in northwestern Africa (Algeria, Senegal, Nigeria, Niger, Congo). Dry modified milk is also expected to continue to be exported to Venezuela and the Caribbean Basin.

Non-fat dry milk exports are also expected to grow in 2009, but volumes are much smaller. Brazil and Peru are usual buyers.

Exports of cheese in 2009 are also forecast to grow due to an excess in production and high stocks. During part of 2008, the government slowed down the approval of cheese export permits fearing that the domestic market was going to be under-supplied and thus put pressure on retail prices. Argentina exports soft, semisoft and hard cheeses. Semisoft, which is the most exported, normally goes to the Russian Federation, Chile, and Japan. Soft cheese is primarily shipped to the Russian Federation, Chile and South East Asia. Exports of hard cheese go primarily to the U.S. under a cheese quota. Other secondary markets are Brazil and the Russian Federation.

Most local exporters believe that 2009 FOB prices will be weaker than those in 2007-08, but still at reasonable levels as demand for dairy products will continue. Recent sales of dry whole milk were done at a price of \$2,700 per ton. Some industry contacts believe that Argentina will have to move to a price scheme where spring surplus milk will be paid according to world prices, while the base price remains at a higher level.

**PRODUCTION:** Milk production for 2009 is forecast to increase to 10.4 million tons, practically the same as the record of 1999. Despite a very dry season in 2008, the cowherd is in good condition and most farmers' returns are still positive. Although production costs increased significantly in the first nine months of 2008, they are expected to be lower in 2009 as feed costs should reflect lower world grain prices. Production of milk in Argentina is being concentrated in the hands of medium to large producers who are efficient, use more technology, and are intensifying their production schemes. The smaller and less efficient producers continue to go out of business. The significant drop in world soybean prices has decreased incentives for dairy producers to shift into crop production. Of the volume increase expected in 2009, most processors believe that a vast majority of the milk will be turned into whole dry milk, and a smaller portion into cheese.

There are no significant new investments in processing capacity projected for the next year. Production and processing capacity are in good shape and there is room to handle further milk output increases.

**CONSUMPTION:** Domestic consumption of dairy products is forecast to grow marginally in 2009. Although there is concern about the effects of the global financial crisis will have on Argentina, contacts expect that the government will try to keep demand steady. Dry milk traders expect somewhat larger domestic sales through official food programs.

**POLICY:** The government continues to fight inflation in order to maintain the increased purchasing power of consumers gained in the past few years. In order to keep prices down, it established Resolution 61 of February 2007, creating the "Dairy Products Domestic Price Stabilization Program". Through it, there are 16 popular dairy products with "directed prices". Contacts report that in 2008, these products were authorized price increases of 8 percent, significantly lower than private sector estimates of inflation. This resolution also established a maximum export price for dairy products, to finance price supports for local dairy processors and milk producers. In the first semester of 2008, the FOB price for dry whole milk averaged \$4,300 per ton, while the government's maximum export price was \$3,116 per ton. The government received the difference between the export price and maximum price (\$1,184 per ton), representing an export tax of 27.5 percent.

Exporters also report that the government slows down the certification of export permits when it feels that the local market is not sufficiently supplied. This affects primarily exports of cheese and dry milk. Large dairy processors report that the price controls on many products, combined with increasing production costs, are creating significant problem. Moreover, most processors have nowadays large stocks of products, which they could not export when prices were higher and result in high financial costs.

The government has negotiated with three large processors and a limited number of producers a price of 1 peso per liter for milk sold by producers to the major processors, with processors receiving 0.15 pesos per liter to compensate for selling popular dairy products at a lower price. The agreement was signed on October 20, 2008. This follows a previous agreement during June-September of 2008 under which small and medium farmers received pesos 0.945 per liter from the processors and pesos 0.102 per liter from the government. Dairy processors that complied with the government's price scheme received pesos 0.15 per liter, to offset partially the low prices they had to sell their products in the domestic market. The reduction of government payments under the new agreement appears to be due in part to the drop in international prices. With export prices now below the maximum export price, the government is receiving much lower revenue from dairy product exports (the 5 percent basic export tax remains in place).

Argentina, as the rest of the world, is going through strong economic turbulences. The peso has lost some value, but not in the same proportion as Argentina's neighbors Brazil, Chile, and Uruguay. The government continues its policy of maintaining a stable exchange rate (currently maintaining the value of the peso between \$3.20 and \$3.30). Local industry and the farm sector are pressing for a devaluation of the peso in order to be more competitive.

## SECTION II. STATISTICAL TABLES

Dairy, Milk, Fluid Argentina	2007			2008			2009		
	2007			2008			2009		
	Market Year Begin: Jan 2007			Market Year Begin: Jan 2008			Market Year Begin: Jan 2009		
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan
			Data			Data			Data
Cows In Milk	2150	2150	2150	2150	2150	2150			2150
Cows Milk Production	9400	9400	9550	10000	10000	10100			10400
Other Milk Production	0	0	0	0	0	0			0
Total Production	9400	9400	9550	10000	10000	10100			10400
Other Imports	0	0	0	0	0	0			0
Total Imports	0	0	0	0	0	0			0
Total Supply	9400	9400	9550	10000	10000	10100			10400
Other Exports	9	9	10	12	12	26			20
Total Exports	9	9	10	12	12	26			20
Fluid Use Dom. Consum.	2000	2000	1900	2100	2100	1950			1970
Factory Use Consum.	7391	7391	7640	7888	7888	8124			8410
Feed Use Dom. Consum.	0	0	0	0	0	0			0
Total Dom. Consumption	9391	9391	9540	9988	9988	10074			10380
Total Distribution	9400	9400	9550	10000	10000	10100			10400

Dairy, Dry Whole Milk Powder Argentina	2007			2008			2009		
	2007			2008			2009		
	Market Year Begin: Jan 2007			Market Year Begin: Jan 2008			Market Year Begin: Jan 2009		
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan
			Data			Data			Data
Beginning Stocks	20	20	23	16	16	32			60
Production	175	175	186	190	190	217			235
Other Imports	1	1	2	1	1	1			1
Total Imports	1	1	2	1	1	1			1
Total Supply	196	196	211	207	207	250			296
Other Exports	95	95	117	100	100	123			175
Total Exports	95	95	117	100	100	123			175
Human Dom. Consumption	85	85	62	90	90	67			71
Other Use, Losses	0	0	0	0	0	0			0
Total Dom. Consumption	85	85	62	90	90	67			71
Total Use	180	180	179	190	190	190			246
Ending Stocks	16	16	32	17	17	60			50
Total Distribution	196	196	211	207	207	250			296

Dairy, Milk, Nonfat Dry Argentina	2007			2008			2009	
	2007			2008			2009	
	Market Year Begin: Jan 2007			Market Year Begin: Jan 2008			Market Year Begin: Jan 2009	
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed	Jan
			Data			Data		Data
Beginning Stocks	3	5	1	6	6	5		8
Production	24	24	24	24	24	25		25
Other Imports	0	0	0	0	0	0		0
Total Imports	0	0	0	0	0	0		0
Total Supply	27	29	25	30	30	30		33
Other Exports	12	12	11	12	12	13		17
Total Exports	12	12	11	12	12	13		17
Human Dom. Consumption	9	11	9	12	12	9		10
Other Use, Losses	0	0	0	0	0	0		0
Total Dom. Consumption	9	11	9	12	12	9		10
Total Use	21	23	20	24	24	22		27
Ending Stocks	6	6	5	6	6	8		6
Total Distribution	27	29	25	30	30	30		33

Dairy, Cheese Argentina	2007			2008			2009	
	2007			2008			2009	
	Market Year Begin: Jan 2007			Market Year Begin: Jan 2008			Market Year Begin: Jan 2009	
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed	Jan
			Data			Data		Data
Beginning Stocks	32	32	30	24	24	35		52
Production	475	475	520	515	515	540		550
Other Imports	2	2	3	2	2	3		2
Total Imports	2	2	3	2	2	3		2
Total Supply	509	509	553	541	541	578		604
Other Exports	45	45	45	55	55	36		56
Total Exports	45	45	45	55	55	36		56
Human Dom. Consumption	440	440	473	460	460	490		500
Other Use, Losses	0	0	0	0	0	0		0
Total Dom. Consumption	440	440	473	460	460	490		500
Total Use	485	485	518	515	515	526		556
Ending Stocks	24	24	35	26	26	52		48
Total Distribution	509	509	553	541	541	578		604